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Review of the efficiency of the administrative and financial functioning of the United Nations

Procurement reform

Report of the Secretary-General

Addendum

1. The present addendum reports on subsequent developments in procurement since the issuance of document A/53/271. The preparation of the addendum has benefited from the discussions with and the suggestions of the Advisory Committee on Administrative and Budgetary Questions. Tables 1 and 2 provide a summary of the actions taken and ongoing matters under consideration, and the annex provides information on the status of the implementation of the recommendations of the High-level Group of Experts on Procurement.

Increasing procurement from developing countries

2. In paragraph 14 of resolution 52/226 A of 31 March 1998, the General Assembly requested the Secretary-General to examine ways to increase opportunities for developing countries in the award of contracts, taking into account the experience of preferential treatment in this regard in the funds and programmes of United Nations organizations and other intergovernmental institutions.

3. A survey of United Nations organizations was conducted, which found that some special measures are applied to suppliers from developing countries in the form of inclusion of such suppliers on shortlists for tenders, or permitting certain procurements to be sourced only at the local or regional levels. None, however, apply preferential treatment in the form of a percentage-based margin of preference.

4. The policies on price preferences of the international financial institutions were also reviewed. Those institutions do not apply any preferences for their own procurement. They do permit borrowers to apply domestic price preferences and, for several of the regional institutions, regional price preferences. However, even among the international financial institutions, the margin of preference differs, both in amounts and in manner of determination of what constitutes nationality of goods and services. The international financial institutions are currently reconsidering the use of such preferences.

5. The United Nations Development Programme (UNDP) and its participating and executing agencies did apply a price preference of 15 per cent for a period of 13 years, until 1991. The Governing Council of UNDP eliminated the provision because, among other reasons, a preference system that favoured price over other selection criteria was not supported by United Nations organizations or the programme countries benefiting from the assistance. Since that time and in response to demands by governing bodies for increased

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procurement from developing countries, United Nations organizations have utilized other mechanisms, including the following: increased outreach to developing countries through local business seminars on how to do business with the United Nations system; sharing of supplier information among United Nations organizations; increased advertisement of procurement opportunities in special United Nations publications, such as *Development Business* and *Procurement Update*, and now through the Internet; and training of procurement staff on better market research techniques. The widespread use by United Nations organizations of shortlisting as the preferred method for issuing tenders, along with the devolution of increased procurement authority and higher thresholds to field activities, further promoted procurement from local markets. The Secretariat has also employed those measures in its procurement practices, as is reflected in paragraphs 14 and 15 of the main report (A/53/271). The Secretary-General finds the results to be encouraging.

6. Monitoring of procurement from developing countries has also improved. The primary source of procurement statistics is the annual report on United Nations system procurement issued by the Inter-Agency Procurement Services Office of UNDP. Since 1991, the Office has prepared the report annually on behalf of the United Nations organizations. Data is reported on the basis of country of procurement for goods and country of the head office for services.

7. The annual report on procurement for 1997 was issued in June 1998 and submitted to the Executive Board of UNDP at its September 1998 session. The report indicates that the total volume of procurement by United Nations organizations amounted to $2,895 million, with $1,197 million, or 41 per cent from developing countries. The Procurement Division procured a total of $309 million in 1997, or 11 per cent of total United Nations system procurement. Nine per cent of the Division's procurement was from developing countries, which was up from 0.07 per cent in 1996. Procurement by the Field Administration and Logistics Division of the Department of Peacekeeping Operations, including missions' procuring under delegations of authority, amounted to $122 million, or 4 per cent of total United Nations system procurement. The Field Administration and Logistics Division of the Department of Peacekeeping Operations procured 25 per cent of its goods and services from developing countries, which is up from 0.02 per cent in 1996. The former Department for Development Support and Management Services (now part of the Department of Economic and Social Affairs), whose procurement operations are now integrated into the Procurement Division, procured $24 million in 1997, with 35 per cent of that amount from developing countries, up from 29 per cent in 1996. It is thus evident that the amount of procurement from developing countries is substantial and on the rise. The increase in the case of the Field Administration and Logistics Division is attributable to the increased delegation of procurement authority to missions, where most procurement is sourced within the locality or region of the mission.

8. Against this background, and in view of the recent trends towards increased procurement from developing countries, as evidenced by the statistics in the report of the Inter-Agency Procurement Services Office, the Secretary-General believes that the current actions being taken can achieve the results intended, and he will continue to focus efforts in this direction.

Common services

9. The Secretariat has achieved much on its own, but it is now seeking to benefit from a common approach with other organizations, drawing on best practices within the United Nations system, and cooperating in new endeavours. It is clear that procurement reform must be looked at on a system-wide basis and not just from the point of view of the United Nations. In this respect, the Secretary-General has included in his reform initiatives report (A/51/950), the objective of streamlining of procurement services through use of common services mechanisms, in coordination with the funds and programmes, and where possible, with the specialized agencies. A Task Force on Common Services, chaired by the Assistant Secretary-General for Central Support Services, has been established, and a Working Group on Procurement in that forum has realized a number of achievements that are relevant to the reform efforts of the United Nations. In addition, key linkages have been established by the Task Force with the Inter-Agency Procurement Working Group, which is serviced by the Inter-Agency Procurement Services Office and consists of United Nations funds and programmes, specialized agencies and international financial institutions.

10. Simplified, generic, harmonized financial regulations for procurement have been developed by the Working Group on Procurement under the Task Force. They were adopted in September 1998 by the Executive Boards of UNDP and the United Nations Population Fund. The Secretariat is interested in adopting them as well. Such harmonized regulations will provide a platform for joint procurement, outsourcing of procurement requirements from one

organization to another, or use of decisions of one organization by another. These measures are expected to increase the efficiency and cost-effectiveness of procurement for all organizations.

11. Already, United Nations funds and programmes in New York are jointly contracting for office supplies and travel agency services. Additional long-term contracts are being explored with the members of the Inter-Agency Procurement Working Group.

12. Another clear manifestation of a common approach is the recent implementation of the United Nations Common Supplier Database. This joint effort of 12 United Nations organizations, including the United Nations, pools the supplier rosters of all participating organizations, thus significantly expanding the number of potential suppliers to each organization, provides a single gateway for suppliers to the rosters of the participating organizations, thus reducing the administrative costs of roster maintenance system-wide, and will eventually permit the United Nations organizations to share information on supplier performance evaluations.

13. The Secretary-General believes that the initiatives indicated above, along with other actions either under way or planned, will provide the basis for further reforms in procurement, with the United Nations an active leader.

Summary of actions completed and outstanding

14. For ease of reference, the information contained in the main report has been summarized in two tables, set forth below. Table 1 lists completed actions. Table 2 provides ongoing matters under consideration. An annex is provided listing the status of recommendations of the High-level Group of Experts on Procurement.

Table 1
Completed actions

Subject	*Paragraph from resolution 52/226 A*	*Paragraph in Secretary-General's report (A/53/271)*	*Remarks*
Ensure adherence to regulations and rules	1	2	Completed.
Implementation of recommendations of High-level Group of Experts	2	3	All but one item completed (ombudsman), see annex.
Issuance of Procurement Manual	3 and 26	4 and 29	Completed.
Need to reduce further the number of *ex post facto* cases	6	7 and 8	Completed.
Annual procurement planning	7	9	Instruction prepared and to be issued at year-end for 1999 procurement requirements.
Sharper definition of exigency	8	10	Policy drafted to also incorporate peacekeeping guidelines contained in A/C.5/53/46.
Improve working methods of Headquarters Committee on Contracts	9	11	Completed.
Guidelines on methods of invitation to bid	10	12	Completed.
OIOS investigation	11	13	Completed.
Improve roster	12	14	Completed.
Methods to increase procurement from developing countries	13	15	Completed.
Margin of preference for developing countries	14	16	Review undertaken, see paras. 2–8 of the present addendum.
Preference to Member States current in payment of assessed contributions	15	17	Review completed, see A/53/271/Corr.1.
Performance evaluation of suppliers	16	18	Format finalized and being cleared by Office of Legal Affairs.
Revised to include a number of items under requirement for competitive selection	18	20	Completed. Will be incorporated in the next revision of the Procurement Manual.
Permit local/regional sourcing by missions	19	21	Completed.
Training for procurement staff	20	22	Completed.
Eliminate gratis personnel	21	23	Completed.
Review of organizational structure of Procurement Division	22	24–25	Completed.
Inventory records	23	26	Completed.

Subject	*Paragraph from resolution 52/226 A*	*Paragraph in Secretary-General's report (A/53/271)*	*Remarks*
Collecting statistical data	27	30	Completed.
Development of standards of conduct	28	31	Completed.

Table 2
Ongoing matters under consideration

Subject	*Paragraph from resolution 52/226 A*	*Paragraph in Secretary-General's report (A/53/271)*	*Remarks*
Revision of Financial Regulations and Rules	4	5	Changes to regulations and rules on procurement have been drafted by OCSS. Issuance of completed revision awaited.
Evolve standards of measuring efficiency in procurement	5	6	In preparation. Considering use of comparative statistical data and benchmarking with other organizations.
Use of suppliers recommended by requisitioners	17	19	Reconsideration by General Assembly requested in light of need for responding to truly exceptional cases where lack of expertise in Procurement Division and limited suppliers in roster ASG/OCSS already issued cautionary instruction in this regard.
OIOS review of arbitration cases	24	27	Under OIOS review.
Ombudsman function	25	28	Existing function by USG/DM and ASG/OCSS satisfactory.

Annex

Implementation of recommendations of the High-level Group of Experts on Procurement

Rec. No.	*Recommendation*	*Status*
1.	Implementation of a programme of professional training, starting at the buyer level	Implemented
2.	Training for management and supervisory levels on general management and commercial competencies as well as on United Nations-specific systems	Implemented
3.	Functional responsibility for all procurement to be given to the Department of Management	Implemented
4.	All Chief Procurement Officers to have the right of direct access to the Director, Procurement Division, on professional matters	Implemented
5.	All requisitioners for Headquarters action to go directly to the Procurement Division and not through the Field Administration and Logistics Division, preferably electronically	Rejected
6.	Local committees on contracts to be abolished	Rejected
7.	Issuance of individual letters of delegation that clearly spell out the assignment, responsibilities and levels of signing authority	Implemented
8.	Increased delegation to the field missions in line with the suggestions detailed in annex D to the report of the High-level Group of Experts	Implemented
9.	Issuance of a larger imprest to sector level in field missions (about $5,000), to use for day-to-day requirements; guidelines on its use to be used	Implemented on a case-by-case basis by field missions directly with the Controller
10.	While waiting for budget approval, authority to be given to commit up to 75 per cent of the estimated budget (under rule 110.6); priority to be given to mission-critical items	Implemented
11.	Procurement Division to review and implement increased numbers of global system blanket contracts	Implemented
12.	Vendor roster to be fully purged and Member States to be asked to seek national vendor registration details	Implemented
13.	Commercial generic specifications to be compiled and, where not available, United Nations-particular specifications to be developed by the Department of Peacekeeping Operations; field missions to be issued with a full list of specifications	Implemented
14.	Issuance of clear instructions on the use of immediate operational requirement (revised definition is given in para. 10 of the report of the High-level Group of Experts)	Implemented
15.	Headquarters Committee on Contracts to pre-vet only the system contracts and carry out a quality review process on a decision already made	Rejected

Rec. No.	*Recommendation*	*Status*
16.	Public bid openings to be stopped	Rejected
17.	The bottleneck identified in the Procurement Division at the level of head of the Field Missions Procurement Section and head of the Processing Section to be eliminated by a better definition of responsibilities at lower levels	Implemented
18.	Procurement Division to initiate a record system to show staff qualifications, expertise, experience and competencies, with a view to matching staff to posts	Implemented
19.	Procurement plan to be drafted to cover estimated requirements over the next 12-month period	Implemented
20.	All reports currently available to be critically reviewed and deleted if not used	Implemented
21.	Managers to identify their IMIS requirements: requisition value; amount spent/committed budget; demand satisfaction rate; lead times; equipment performance and trend analysis; vendor performance, etc.	Implemented
22.	All relevant staff to receive both IMIS and REALITY training	Implemented
23.	Post-operation reports and/or debriefings to identify problems, solutions and recommendations for the future	Implemented
24.	All requests to vendors to allow 30 days for a response, with a minimum of 14 days for a fax response	Rejected
25.	An information technology coordinator to be appointed to survey and record all computer hardware and software in use, with a view to making full use of existing capabilities and expertise	Implemented
26.	Critical review of the competence of managers and move/train, if necessary	Implemented
27.	An independent complaint bureau/Supplier Relations Manager to be appointed	Under consideration